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Credit Cards Enter the Micropayment Game

By MARK JEWELL, AP Business Writer

06/29/2004

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BOSTON (AP) — If your image of a typical video-game arcade customer is a teenager emptying quarter-filled pockets into a machine to do battle with space aliens, think again. Today's high-tech games increasingly appeal to an older set. And soon those customers will be able to use credit or debit cards as a payment option.

These so-called "micropayments" are gaining currency on the Internet as a way to perform small-ticket transactions such as downloading a song or accessing other online content.

But most micropayment systems require customers to establish prepaid accounts, to get around the hassle and transactional costs of entering card information for each purchase.

Now, however, one player in the micropayments market, Peppercoin Inc., has come up with a system that also facilitates the more familiar way of buying things - by credit or debit card at the time of service.

One early customer is Incredible Technologies Inc., a manufacturer of coin-operated video games like the Golden Tee golf game. It has selected Peppercoin 2.0 to process credit card transactions in its future lineup of games, which will be able to take credit card swipes.

Peppercoin expects customers offering online music and other products will sign up for the service as well, said co-founder Perry Solomon.



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The biggest obstacle to using credit cards for micropayments is the cost of transaction processing. Typically, a transaction costs 20 cents to a quarter, plus 2 percent to 3 percent of the price of the item being sold. For very inexpensive products, the transaction expense can wipe out any profit.

Peppercoin 2.0 has reduced the transaction expense to less than 10 cents, Solomon said.

With some sophisticated games costing a dollar or more to play, that cost structure is affordable.

The cost reduction is possible, he said, because of a patent-pending method of lumping together individual transactions into one transaction to reduce the cost to the merchant.

The method was devised by Ron Rivest and Silvio Micali, two Massachusetts Institute of Technology faculty members who are Peppercoin Investors and board members.

With the average American's wallet now holding five credit cards, the micropayments market could increasingly turn in the direction Peppercoin is heading, said Ed Kountz, a technologies analyst at the research firm TowerGroup in Needham, Mass.

"Clearly, the ability to leverage an existing consumer habit - the credit card - we think is an important one," Kountz said.

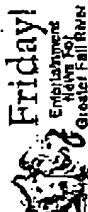
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